

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Hendricks County Bank and Trust Company, Brownsburg, Indiana** prepared by the **Federal Reserve Bank of Chicago**, the institution's supervisory agency, as of **March 4, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION-S RATING: This institution is rated **Satisfactory**.

Management is knowledgeable of antidiscrimination laws and has implemented adequate policies, procedures, and programs to prevent discrimination in lending activities. There was no evidence of any discriminatory lending practices or policies intended to discourage loan applicants. The institution's satisfactory CRA performance is evidenced by an adequate loan-to-deposit ratio, reasonable dispersion of the bank and mortgage subsidiary's loans throughout the assessment area and an outstanding performance regarding loans to individuals of different income levels. Given the demographics of the assessment area, the distribution of the bank and mortgage subsidiary loans reflects excellent penetration among individuals of different income levels in community; however, a majority of the bank and mortgage subsidiary's lending is outside of the assessment area which is, in part, due to management's business strategy of not limiting the mortgage subsidiary's activity to the defined assessment area.

The following table indicates the performance level of **Hendricks County Bank and Trust Company** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	HENDRICKS COUNTY BANK AND TRUST PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	NO COMPLAINTS WERE RECEIVED SINCE THE PREVIOUS EXAMINATION.		

DESCRIPTION OF INSTITUTION

Hendricks County Bank and Trust Company is a subsidiary of Midstate Financial Corporation, a one bank holding company. The bank reported total assets of \$99 million on December 31, 1995. The institution's main office is located in Brownsburg, Indiana, 18 miles northwest of Indianapolis in Hendricks County. The bank operates three full-service branches located in Brownsburg, Plainfield, and Danville. In November, 1992, the bank formed Freedom Mortgage Corporation, a mortgage subsidiary. Freedom Mortgage's main office is located in Brownsburg and there is one branch office in Plainfield. The bank's competitors include Bank One, Indianapolis, N.A.; First Indiana Bank; Huntington National Bank of Indiana; Union Federal Savings Bank of Indianapolis; Lincoln Federal Savings Bank; State Bank of Lizton, and National City Bank. With the exception of the State Bank of Lizton, these institutions are branches of larger regional banks.

The bank provides a full range of deposit services and loan products including mortgage, commercial, construction, small business, consumer, and farm loans. Management is presently focusing on expanding the bank's commercial loan portfolio. Commercial loans increased approximately 46 percent from \$11 million on December 31, 1994 to \$16 million on December 31, 1995. Management is providing loans to local small- and medium-size businesses that cannot obtain credit from the branches of larger financial institutions in the area. Further, the bank provides construction financing for customers of the mortgage subsidiary. Freedom Mortgage offers a wide range of mortgage loan products including government guaranteed loans, adjustable rate mortgages, and loans requiring private mortgage insurance. Freedom Mortgage originates the loans and sells them on the secondary market. Together, the bank and its mortgage subsidiary promote economic development in the community by offering products and services consistent with their size and financial capacity.

DESCRIPTION OF ASSESSMENT AREA

Hendricks County Bank and Trust Company has designated a portion of the Indianapolis Metropolitan Statistical Area (MSA) as its assessment area. The assessment area includes Brown, Center, Lincoln, Washington and Guilford Townships in Hendricks County. These townships encompass nine census tracts. According to 1990 census data, the population totals for Hendricks County and the bank's assessment area are 75,717 and 60,183, respectively. Minorities represent 2.44% of the bank's assessment area; however, the community does not include any designated low- or moderate- income/minority tracts. The institution's assessment area contains whole census tracts and does not arbitrarily exclude any low- or moderate-income areas.

According to 1990 census data, there are 21,335 housing units in the bank's assessment area. Of this total, 79% are owner-occupied and 87% are 1-4 family units. The median home value in the assessment area is \$79 thousand and the median income is \$54 thousand.

The local economy has experienced rapid growth in recent years and is strong. According to the

Bureau of Labor Statistics, the MSA's unemployment rate was 4% in 1994. However, one contact indicated that this rate is currently as low as 2% in Hendricks County. A diverse group of companies are based in the county, including:

- C Maplehurst Bakeries, Inc., in Brownsburg, producer of baked goods for grocery deli shops;
- C American Fasteners in Avon, manufacturer of fasteners;
- C Danville Paddle Sales in Danville, producer of fraternity/sorority paddles;
- C LasTec, Incorporated in Lizton, manufacturer of top-end golf course lawnmowers; and
- C Kilsby-Roberts in Plainfield, a steel processor and supplier.

Additionally, a number of plastics specialities and automotive engine parts industries are based in the area. The development in the county is prompted by an unprecedented growth in both business and industry. Several new industries are relocating to the county's business parks and occupying the 700 acres of light industrial and commercial space in the county.

The Indianapolis International Airport is located just east of Hendricks County. Its expansion has added significantly to the county's economic growth in recent years. Additional growth is expected when United Airlines opens a maintenance facility in 2004 which will add 7,500 jobs in the area. Additionally, Federal Express is expanding its present facility and is expected to add approximately 1,000 jobs to the local market. Farming also plays a major role in Hendricks County's economy, with approximately 70% of the county involved in the production of corn, hay, soybeans, and winter wheat; and area orchards harvest and sell more than one million pounds of apples each year.

New industry in the area as well as out-of-county projects like the development of the United Airlines maintenance hub are drawing new residents to the area, and prompting growth in residential development. Hendricks County is considered a bedroom community for Indianapolis, however, this is changing as employment opportunities increase locally.

Community contacts, including a local government official, stated that the local economy is prospering. They named numerous businesses which have been established in the area in recent months and indicated that 269 housing permits were issued in 1995 which represented a 100% increase from 1994.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Management is knowledgeable of antidiscrimination laws and has implemented adequate policies, procedures, and programs to prevent discrimination in lending activities. Information obtained from loan reviews, discussions with bank personnel, and Home Mortgage Disclosure Act (HMDA) data confirm the absence of any discriminatory practices. The institution is in compliance with the substantive provision of antidiscrimination laws and regulations, including the Equal Credit Opportunity Act and the Fair Housing Act.

Loan-to-Deposit Analysis

The bank's average loan-to-deposit ratio since the June 27, 1994 examination is 56.08%. The ratio improved from 51.83% on December 31, 1994 to 62.75% on December 31, 1995. While the average ratio is adversely affected by the low loan levels in earlier periods, the present ratio is in line with the September 30, 1995 peer ratio of 68.75%. Overall, total loans increased by \$18 million or 49.57% since the previous examination. The commercial loan portfolio increased by \$8 million and Freedom Mortgage originated 586 loans totaling \$48 million in 1994 and 415 loans totaling \$37 million in 1995.

The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area's credit needs. Further, the significant number and dollar volume of real estate mortgage loans originated are considered positive factors. Management is generating a monthly report of the bank's daily loan-to-deposit ratio in order to monitor the relationship more closely.

Lending in Assessment Area

A review of the 1994 HMDA data disclosed the following information regarding the geographic distribution of the bank and mortgage subsidiary loans:

HENDRICKS COUNTY BANK AND FREEDOM MORTGAGE 1994 HMDA LOAN ORIGINATIONS			
LOAN TYPE	ORIGINATIONS BY \$000's/#	INSIDE THE ASSESSMENT AREA BY \$000's/#	PERCENT OF TOTAL INSIDE BY \$000's/#
FHA/FmHA/VA	25,139/335	1,859/21	7.39/6.27
Conventional	12,446/138	3,378/33	27.14/23.91
Refinancing	7,250/86	3,178/36	43.83/41.86
Home Improvement	615/40	326/23	53.01/57.50
Multi-Family	0/0	0/0	0/0
Total Loans	45,450/599	8,741/113	19.23/18.86

According to the 1994 HMDA data, the bank and mortgage subsidiary originated 18.86% (by

number) and 19.23% (by amount) of loans inside the assessment area. Because the HMDA analysis is somewhat limited since it only includes HMDA reportable loans, an analysis of the bank and mortgage subsidiary activity in 1994 including all loan products was performed. This review was conducted using the bank's analysis of the geographic distribution of all bank loans together with the HMDA data available for Freedom Mortgage. The results of the analysis are shown in the following table:

HENDRICKS COUNTY BANK AND FREEDOM MORTGAGE 1994 TOTAL LOAN ACTIVITY			
	ORIGINATIONS BY \$000's/#	INSIDE THE ASSESSMENT AREA BY \$000's/#	PERCENT OF TOTAL INSIDE BY \$ 000's/#
Hendricks County Bank	27,215/627	14,377/355	52.83/56.62
Freedom Mortgage	44,250/547	7,879/80	17.81/14.63
Total	71,465/1,174	22,256/435	31.14/37.05

The analysis shows that a total of 1,174 loans were originated in 1994. Of this total, 37.05% (by number) and 31.14% (by amount) were extended in the assessment area.

A sample of 81 loans was reviewed to determine the level of lending inside the assessment area. The review disclosed that 67.9% of the loans were to applicants residing inside the assessment area. While the loans sampled included some credits purchased by the bank from the mortgage subsidiary, the majority of the loans in the sample were originated by the bank. The sample was limited because the mortgage subsidiary sells its loans on the secondary market; consequently, the sample reviewed is not considered a true representation of the loans originated by the bank and the mortgage subsidiary.

The bank's performance relative to this assessment criteria does not meet the standards for a satisfactory rating since the majority of the loans are made outside the assessment area; however, positive consideration is given to the fact that lending is dispersed throughout the assessment area, the credit needs within the assessment area are being met, according to community contacts, and management's business strategy of not limiting the mortgage subsidiary's activity to the defined area. Management performs an internal analysis of the loans originated inside and outside of the assessment area on an annual basis; however, this analysis only includes bank loans and does not consider the loans originated by the mortgage subsidiary.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

A review of the 1994 HMDA data disclosed that the bank and mortgage subsidiary originated 30.09% of all loans to low- and moderate-, 35.40% to middle-, and 34.51% to upper- income applicants.

Also, a sample of loans was reviewed to determine lending activity based on borrower income classifications. The results of this review are presented in the following table:

HENDRICKS COUNTY BANK AND FREEDOM MORTGAGE LOANS SAMPLED-ORIGINATED				
LOAN TYPE	LOW-INCOME \$000's/Number	MODERATE- INCOME \$000's/Number	MIDDLE- INCOME \$000's/Number	UPPER-INCOME \$000's/Number
Mortgage	57/1	128/2	161/2	567/5
Instalment	16/4	0/0	60/4	12/3
Single Payment	6/2	23/4	0/0	23/3
Home Equity	0/0	33/2	30/2	174/5
Credit Card	10/6	9/2	0/0	5/1
Overdraft Line	1/2	1/1	0/0	9/4
Totals*	\$90/15	\$194/11	\$251/8	\$790/21

*A total of 61 loans were reviewed. Six loans did not contain income information.

As the preceding chart illustrates, 61 loans were reviewed. The analysis disclosed that the bank and mortgage subsidiary originated 24.59% of the loans sampled to low-, 18.03% to moderate-, 13.11% to middle-, and 34.43% to upper-income individuals.

The analyses of loan activity indicate that the bank's loans are generally evenly distributed among individuals of different income levels. The bank originated over 40% of the loans sampled to low- and moderate-income individuals. Additionally, the 1994 HMDA data shows that the bank made over 30% (by number) of all loans to these individuals. Given the demographics of the assessment area, the distribution of the bank and mortgage subsidiary loans reflects excellent distribution among individuals of different income levels in community.

The examination also entailed a review of a sample of commercial loans. The sample indicated that the majority of the bank's commercial lending activity is to businesses with annual revenues less than \$500 thousand. Further, the bank's Consolidated Report of Condition shows that there were small business loans totaling \$3,125 million (with original amounts of \$100 thousand or less), \$4,856 (with original amounts of \$100 to \$200 thousand) and \$5,744 million (with original amounts of more than \$250 thousand through \$1 million) outstanding as of June 30, 1995. Loans

to small businesses comprise a substantial percentage of the institution's commercial lending activity. Farm loans comprise only a small percentage of the bank's portfolio since the institution is not an aggressive agricultural lender. This activity is consistent with the size of the bank and the demographics of the assessment area and is considered reasonable.

Geographic Distribution of Loans

There are no designated low-income or moderate-income census tracts within the assessment area and minorities comprise 2.4% of the assessment area's population. Management provided an analysis of the geographic distribution of the bank's loan activity in 1994 and 1995. The analysis disclosed that there was activity in all of the census tracts in the bank's assessment area and the activity was generally evenly dispersed. The level of activity in one of the nine census tracts was low and management stated that there is a correctional facility located in the census tract. The 1994 HMDA information for the bank and mortgage subsidiary confirmed the validity of management's analysis. The geographic distribution of the bank and mortgage subsidiary loans reflects reasonable dispersion throughout the assessment area is therefore considered satisfactory .

Response to Complaints

No CRA-related complaints were received by the institution since the previous examination.